

Message Text

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ACTION ARA-14

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C O N F I D E N T I A L QUITO 0660

E.O. 11652: GDS
TAGS: EINV ENRG EC
SUBJ: GOE MORE RECEPTIVE TO NORTHWEST COMPANY'S PROPOSALS AS
DISCUSSIONS RESUME RE USE OF GUAYAQUIL GULF'S GAS

REF: 77 QUITO 7844

1. GLEN NELLE, VICE PRESIDENT OF NORTHWEST (NW), RETURNED TO ECUADOR ON JANUARY 26 WITH TWO ASSISTANTS FROM THE COMPANY, AND BEGAN A SERIES OF DISCUSSIONS WITH THE MINISTER OF NATURAL RESOURCES, GENERAL SEMBLANTES, AND THE LATTER'S ADVISERS. ON JANUARY 31, AFTER THE SECOND GOE-NW MEETING, NELLE TOLD THE E/C COUNSELOR THAT THEY HAVE BEEN HIGHLY ENCOURAGING.

2. HE SAID SEMBLANTES HAS INDICATED FAR GREATER WILLINGNESS THAN BEFORE TO CONSIDER ACCEPTING NW'S PROPOSAL THAT THE GAS FROM THE GULF OF GUAYAQUIL BE UTILIZED INITIALLY AS FUEL FOR INDUSTRIES AND POWER-GENERATION. THE TALKS TO COME ARE EXPECTED TO FOCUS MORE CLOSELY ON THE SPECIFIC WAYS AND MEANS TO EFFECT SUCH UTILIZATION.

2. NELLE SAID SEMBLANTES ALSO, FOR THE FIRST TIME, INDICATED WILLINGNESS TO PROCEED PROMPTLY TO ESTABLISH THE GOE-NW MIXED ENTERPRISE WHICH IS TO BE THE OPERATING BODY FOR PRODUCING
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AND MARKETING GAS. NELLE SAID THAT IT TRANSPIRED DURING THE COURSE OF THESE RESUMED CONVERSATIONS THAT SEMBLANTES ALL ALONG EARLIER HAD BEEN UNDER THE MISAPPREHENSION THAT IT WAS NW WHO WANTED A MIXED COMPANY TO BE FORMED. SEMBLANTES HAD NOT REALIZED THAT THIS IDEA HAD ORIGINATED IN THE GOE; THAT IT WAS A FORMAL AND INTEGRAL PART OF THE GOE'S CALL FOR BIDS WHICH LED TO NW'S ACQUISITION OF

THE CONCESSION IN THE GULF; AND THAT ESTABLISHMENT OF A MIXED COMPANY IS SPECIFICALLY REQUIRED UNDER THE GOE-NW CONTRACT. (EMBASSY COMMENT: IT IS REVEALING AND DISTURBING TO SEE THUS HOW POORLY THE MINISTER HAS DONE HIS HOME-WORK ON THIS SUBJECT, AND HOW ILL-SERVED HE HAS BEEN BY HIS ADVISERS IN THE MINISTRY.)

4. NELLE SAID THAT SEMBLANTES RAISED A PROPOSAL, JUST BEFORE NELLE HIMSELF WAS GOING TO DO MUCH THE SAME, THAT CONSIDERATION BE GIVEN TO ESTABLISHMENT OF A PLANT FOR CONVERTING THE GULF'S GAS INTO LIQUID NATURAL GAS (LNG). NELLE SAID THAT, WITH THE RECENT AND PROSPECTIVE RISES IN WORLD PRICES FOR LNG, THE FEASIBILITY OF CONSTRUCTING SUCH A PLANT IS HIGH AND RISING. HE SAID THE INVESTMENT WOULD PROBABLY HAVE TO BE ON THE ORDER OF ABOUT US \$350 MILLION; AND HE EXPRESSED CONFIDENCE THAT THIS AMOUNT COULD BE RAISED. HE ADDED, HOWEVER, THAT MUCH WOULD DEPEND ON WHETHER OPIC ASSISTANCE WOULD BE FORTHCOMING FOR THIS VENTURE.

5. NELLE SAID HE IS PREPARED TO REMAIN IN ECUADOR FOR SEVERAL WEEKS OR MORE, SO LONG AS THE MINISTER KEEPS THE TALKS GOING. NELLE PROMISED TO KEEP THE EMBASSY INFORMED OF DEVELOPMENTS.
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